ETHICS IN MODERN BUSINESS

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[This is the first of a series of articles on the ethical standards prevalent in different occupations.—ED.]

Though the object of business is money-making, its essence is service. Facts in support of this conception face us on every hand. For example, follow through the day the most typical of all citizens, the suburbanite. A cook serves him with breakfast, his town with a sidewalk, an eager boy with a newspaper, an engineer with safe conduct to the city. "Bag carried, sir?" is his welcome there. Thereafter both necessities and luxuries are everywhere thrust upon him—collars, fish, custard pies, vacuum cleaners, pyramids of oranges and of apples vigorously shone on anonymous trousers. A street car takes him to his office-building, an elevator to his office, cleaned for him in the cheerless hours of darkness by a woman on hands and knees. Throughout the day a stenographer and office-boy do his bidding. At lunch a restaurant serves him. When evening comes, superabundant theatres seek to entertain him. No socialist, however ardent, can conceive greater eagerness to serve. The very streets are congested with people bent on serving one another. The activities produced by charitable agencies are in volume as nothing by comparison. There is, however, a stern condition. The recipient of this service must pay for it. With rare exceptions, ability to pay can come only from the recompenses of service. The service of business is reciprocal.

The conception of business as service becomes peculiarly significant when we contrast business with specula-

tion. The essence of speculation is to make money without service. Like the amateur fisherman, the searcher for gold mines, the tramp, and the thief, the speculator seeks wealth without normal sacrifices in the form of effort. All alike, as a rule, get only their deserts. The farmer, the merchant, the manufacturer, and all the commercial parasites of these basic producers and distributers—butchers, bakers, and candlestick-makers—give equivalents for what they get, logically, at least, getting more the more they give. Under this individualistic system of seeking to get through giving, the productive powers of the world have grown prodigiously. The pure speculator's contributions are so slight that his own rewards are mostly dust and ashes and his part in business progress is almost negligible. The wonderful inventions of our age, the new economies in production and distribution, the construction of plant after plant, are the results of efforts to get wealth through giving better or cheaper service. Human progress itself, or what we have long called progress, is bound up in this conception. The familiar phrase, "What is a man worth?" comes somewhere near to meaning, "What has he given to his fellow-men?" The vast and conscious gifts of Rockefeller and Carnegie to colleges, foundations, and causes of recognized public merit, have been far less than their enormously money-making gifts, unintended as gifts, of oil and iron.

The business world is thronged with lenders and borrowers. Of these the lender is by tradition the more highly regarded. He sits in state and has substance; he judges borrowers, and often refuses their applications. Banks, prudent and discriminating, typify lenders. The borrower, because a borrower, admits lack of substance and his need of the substance of others. He often comes dangerously near to being a suppliant, and the contracts to which he binds himself

have tragic possibilities almost unknown to lenders. Yet the borrower is the active force in the community. He conceives and develops enterprises. The lender, because a lender, admits that he is a drone; that, having no enterprises of his own, he is ready to participate, usually without voice in the management, in the enterprises of others. Often too borrowers are far richer than lenders. The great railroad systems of the country owe millions to small investors once called by Dennis Kearney "bloated bondholders." And the banks themselves borrow of their depositors more than their total loans.

The business of giving, getting, borrowing, and lending is a delicate structure. Into it the State has more and more entered by the enactment of new laws, the creation of regulating commissions, and an ominous increase in taxes. Particularly in the case of the railroads, government, both state and national, seems to have endeavored to protect "the plain people" from "the big interests." But whereas railroads were once dominated by men of wealth—Vanderbilt, Gould, Huntington, Forbes, Harriman—only James J. Hill of this type of railroad magnate is still alive and active. Even Messrs. Moore and Reid seem finally to have been ousted from control of the Rock Island Co. Railroad presidents are now hired experts, not large capitalists. Railroad bondholders and stockholders, the latter only technically partners in the business and in spirit as much lenders as bondholders, are the saving classes in the community. Noteworthy attempts are now being made by the Atchison and the Southern railway managers to induce the stockholders in these companies to be less lethargic. As both bondholders and stockholders are in most cases essentially lenders, enterprise does not spring from them and the participation of government in their business tends still further to retard development. Prior to 1893

profits from railroad extensions, largely through graft, were so great that such extensions were overdone. Later, Mr. Hill asserted that a billion dollars a year would be needed for railroad extension. Today such extensions have practically ceased. The prospect of getting in the railroad business has become so slight that money is no longer given for this purpose. Railroad investments were long deemed both safer and more satisfactory than industrial investments. Today the reverse is true.

Responsibility for modern corporations is supposed to reside in boards of directors. It seems axiomatic that it is the duty of directors to direct. If disaster comes, directors are held peculiarly accountable. The popular conception of the shortcomings of directors has been expressed by the broken-backed and now happily defunct Commission on Industrial Relations, as follows: "The typical director of large corporations is not only totally ignorant of the actual operations of such corporations, whose property he seldom, if ever, visits, but feels and exercises no responsibility for anything beyond the financial condition and the selection of executive officials." Yet directors get only $5, $10, or possibly $20 a month. In return for whatever time, thought, and experience they give, they receive less than an office boy. Formerly, when rich men were more largely than now in control of corporations, self-interest tended to make them alert. Now a conscientious director tries to combine altruism with business—a dangerous combination. And while ignorance and absenteeism on his part are to be deplored, it is always a misfortune when he goes beyond general supervision and usurps the executive duties of adequately paid officials.

Two temptations have peculiarly beset directors: first, the opportunity to make clandestine profits through foreknowledge; second, the opportunity to make such profits by dealing as directors with themselves as in-

dividuals. Marketing their own lands through building railroads to them, "consenting" to serve on reorganization committees and charging secretly and excessively for their services, selling themselves the bonds of the companies entrusted to them, participating in profitable underwriting syndicates, have in the past been among the temptations. The fact that in most large corporations stockholders are only investors or in spirit money-lenders and take no real part in the management, increases greatly the liability of directors to fall into the above-mentioned temptations. Conscientious directors are pitifully paid for their services and responsibilities, while the unscrupulous are often much more overpaid than stockholders ever discover.

The end of the last and the beginning of the present century marked the climax in the production of multi-millionaires through the creation of the so-called trusts. Practically a decade earlier the Sherman anti-trust act had been passed. Practically another decade was to pass before this law was to become even measurably effective. The riot of quickly gathered wealth in the years 1899, 1900, 1901, and 1902 might lead a few prudent people to foresee a calamitous day of reckoning, but to the masses a new era had begun in which inordinately rich men seemed destined to be the leaders and standard-bearers of the American people. The following table of big combinations created in these four years shows how extraordinarily the anti-trust laws were then disregarded:

1899	*1900*	*1901*	*1902*
Amalgamated Copper	Armour & Co.	Allis-Chalmers	International Harvester
American Agricultural Chemical	Crucible Steel	American Can	International Mercantile Marine
American Beet Sugar	National Sugar Refinery	American Locomotive	International Nickel
American Car and Foundry	Wagner Co. merged with Pullman Co.	Associated Merchants	Lackawanna Steel
American Pneumatic Service		Eastern Kodak	Mass. Gas
		Pennsylvania Steel	Railway Steel Spring
		Pittsburg Steel	
		U. S. Steel	

1899	*1900*	*1901*	*1902*
American Shipbuilding		U. S. Reduction & Refining	Texas Co.
American Smelting and Refining			Vulcan Detinning
American Woolen			
American Writing Paper			
Borden's Condensed Milk			
International Steam Pump			
National Carbon			
National Enameling and Stamping			
National Fire Proofing			
Pittsburg Coal			
Pressed Steel Car			
Republic Iron & Steel			
Rubber Goods Manufacturing			
Standard Oil			
Union Bag & Paper			
United Fruit			
United States Cast Iron Pipe and Foundry			

The climax of the era of combinations came near the end of McKinley's term of office and the beginning of Roosevelt's. After years of hard times McKinley was elected in 1896 on a "full dinner-pail" platform. The big combinations were a logical outcome. It was not until some time after President Taft had taken office in 1909 that any specific, comprehensive, and effective campaign was waged against combinations in restraint of trade. Various suits then brought are still in the courts.

Moral retribution without government interference had, however, begun much more promptly. The moving spirit in the most nefarious of the flotations—that of the Amalgamated Copper Co.—had been Henry H. Rogers, the masterful head of the Standard Oil group of financiers, after John D. Rockefeller had substituted golf for business. Rogers and his silent associate, William Rocke-

feller, had always had abundant available cash when the straits of others, natural or skilfully enforced, had furnished opportunities to buy securities at bargain prices. To the public, incited to speculation by flaming advertisements of prospective profits and racked by market collapses, Henry H. Rogers appeared a veritable bogey-man. But in 1907, thanks to an overweening conviction that he could, single-handed, build and finance a large railroad, this financial magician had to hold out his own hand, asking the public—the poor, blundering, often pinched public—to contribute to his personal needs. Then in quick succession paralysis and death overmastered him.

Almost as powerful as the awe-inspiring Rogers was the wizard of railroad combinations, Edward H. Harriman. While other men were asserting that all the railroads of the country were about to be merged in a single huge system, he was advancing far toward making this prophecy a reality. Yet long before the government had torn his railroads asunder, cancer took him. Even the over-shadowing figure of all the multi-millionaires in their brief careers, the late J. P. Morgan, went, at the zenith of his power, like Napoleon, to Moscow. In the great railroad reorganizations of the 90's his had been the last and best word on conservative financing. The lesson that excessive floating debts should be avoided seemed then, under his guidance, to have been learned forever. As late as 1907 his personality dominated the financial world. But when he died, he left behind him the New York, New Haven, and Hartford and the Boston and Maine railroads nearly swamped by floating debts, and the New York Central railroad so burdened by them that it had to pay 6% for 20 years to refund $100,000,000 of short-term notes. His master-stroke, the creation of the United States Steel Corporation, the so-called "good trust," was the turning-point. The success of this in-

dustrial giant seemed to justify imprudent finance. Though for part of the property acquired he is understood to have paid Mr. Carnegie $100,000,000 more than the latter's asking price a short time before, and though for the rest he took highly-watered stocks, he diluted the combination still further, paid himself and others colossal underwriting commissions, and yet made the corporation prosper. But when the following year he bought English steamship lines without regard to price and created the International Mercantile Marine Co., his imprudence led first to disappointment and then to disaster. And soon afterward the purchase of railroads and trolley companies by the New Haven railroad with his sanction at extravagant prices, cost that company very dearly. So reckless had he become that, following the success of the Steel Corporation, he urged the British Parliament to allow him to build underground railways in London, to compete with other Americans building similarly, though the business has never been sufficient, without his competition, to give these other Americans any income on their investment. Only good luck in this instance saved him from another disaster.

It might be expected that the multi-millionaires who became partly a national institution, partly a national joke, and partly a national menace, would leave behind them spendthrift heirs. Cheering refutations of such an expectation are John D. Rockefeller, Jr., Mrs. E. H. Harriman, Mrs. Russell Sage, Miss Helen Gould, and the present J. P. Morgan.

Another apparent axiom of business is that monopoly is an evil. Yet why should two men do one man's work? If they must share one man's pay a needed job may go undone. A city which seeks two gas companies will probably have none, for capital at reasonable rates cannot be obtained unless monopoly is assured. As a

result, monopoly of local public utilities under government regulation is customary. Once railroads seemed similarly protected by a natural monopoly. They could be duplicated only at prohibitive cost; their terminals seemed to be real estate of incomparable value. They too have been more and more regulated by the State. The communities served, however, assuming that monopoly is an outrage, have encouraged competition. Comparatively cheap trolley competitors have sprung up everywhere, followed now by "jitneys" and other automobiles, for which states, cities, and towns have furnished streets practically free of expense. Railroads and trolley lines, burdened with both regulation and competition, have, especially in the east, suffered miserably. Both have been denied the hope of expecting profit through the growth of the communities served. While they have had repeatedly to face increased wages and exactions for the safety and convenience of the public, low rates and fares have been forced on them. Thousands of saving people, who meant to invest prudently, have as a consequence been bitterly disappointed.

The "unearned increment" is an economic outlaw. Looking back, it seems to have made uninteresting people fat with wealth for which they have given no equivalent. Looking forward, however, faith and hope, approved by scripture, are found to be a necessary attribute of unearned increments. From a business point of view, what can be more stimulating than the development of enterprises through correct and therefore profitable forecasts of the future? Nothing in business is more impressive than the energy to improve through the hope of exceptional rewards. Every year old appliances and standards are becoming obsolete because inventive genius has supplanted them with better devices. New machinery, new methods of communication, even

new accounting systems, have come into existence primarily through the hope of getting much through giving much.

The laws framed to compel business men to be virtuous have too often forced the semblance rather than the reality. They seem, nevertheless, to represent a more sensitive moral consciousness than formerly prevailed. More and more it is realized that trustees and directors cannot represent safely in a transaction themselves both as principals and as men entrusted with the welfare of others, the danger being manifest that they will fail to serve either one master or the other. The disclosures in connection with the Equitable Life Assurance Co. some years ago made plain that directors of a railroad could not properly as such sell to themselves the bonds of that railroad and then turn them over at a profit to an insurance company also under their charge. The time was when they might contend that through their knowledge of the bonds the insurance company was protected from loss, while the railroad company had reason to welcome the money which they paid for its bonds. Nevertheless, the master whom they were liable to serve first was themselves. Their profit might indeed become a determining factor both in the manufacture and distribution of the securities. If the railroad company wanted to sell bonds and the insurance company to buy them, should not the two companies bargain together directly and thus escape a middleman's profit? Often the expectation of such profits must have led railroad directors to vote for bond issues which it would have been safer not to have issued.

In the sale of securities municipalities, notwithstanding suspicions of corruption, perhaps because of such suspicions, have been far in advance of private corporations. Imagine the mayor of any American city forming a syndicate, with himself a participant, to buy, without

advertising for other bids, an issue of that city's bonds! Always bids for municipal bond issues are publicly invited and almost always such bids are forthcoming. There is little doubt that bonds of large and prosperous private corporations might be similarly sold. Yet over and over again favored bankers, whose partners have been directors, have been allotted attractive bond issues at prices almost sure to show a profit and enabling such bankers to give their business friends a chance to participate. Profitable underwritings have been similarly allotted on what seems a system of favoritism.

The justification for such a system lies, if there is any adequate justification, in the comparative certainty of getting money whenever needed. Almost every big railroad of the country had a decade ago some banking firm represented on its board of directors. Such exceptional railroads as the St. Louis and San Francisco, which "shopped about" among bankers, were held to be in a friendless and hence in a vulnerable position. The New York Central, the New York, New Haven, and Hartford, and the Boston and Maine railroads protected themselves by a regular contract for the sale of bonds and notes with J. P. Morgan & Co., which firm was represented on the boards of directors. The Union Pacific and the Pennsylvania railroads similarly depended on Kuhn, Loeb & Co. There have since then been wholesale resignations of such bankers from directorships. Many business men are convinced that thereby various important boards of directors have been unfortunately weakened. Nevertheless, there can be no doubt that, quite apart from questions of price and profits, the New York Central, New Haven, and Boston and Maine railroads were led into unsound financial positions through the ease with which they could secure money under their contracts with the Morgan bankers. There also can be no doubt that in earlier days of their

strength they could have secured ample funds for their legitimate needs by asking for public bids.

Difficulties, however, arise in the case of corporations neither particularly strong nor well-known. Then banker friends, represented on boards of directors, may be friends indeed. All the members of a certain banking house resigned as directors of a certain none-too-strong corporation, that no question of their dealing with themselves might arise. They were besought to return. Had they not placed the securities of this corporation with hundreds of investors who needed their watchful care? Were they to leave these dependent investors in the lurch? They returned. The company sorely needed money. None others would supply it. They offered to buy the company's securities on condition that other bankers should be offered a chance to bid on them, and, when their bid—the only bid—was considered, they retired temporarily that the other directors might pass on the bid, without influence from them. They supplied the company with money when they would have much preferred not to do so. In spite of these precautions, they were on dangerous ground. Business is not sounder but less sound when it is not conducted on a business basis, and the descent is easy from these self-imposed standards of virtue to practices once common but now, to a great extent, happily outgrown. Gradually private syndicate profits are being superseded by public bids. The change is not yet far advanced but the tendency is good.

Though the service given by business men has had and should have mostly a selfish origin, rectitude is far more common than the reverse. All investments are based on trust in others, and in a great majority of cases such trust is not misplaced. Contracts are as often made orally as by elaborate written documents. Though law-courts are congested, most controversies are settled pri-

vately. Sharp practices and downright dishonesty are scandalous mostly because they are so rare. Persons not in business often shock business men by their disregard for obligations which business traditions have made sacred.

In the business world of getting income through service the stock-broker may not deserve to rank high. Too often he serves vice, as truly as the saloon-keeper. He often lives, perhaps fattens, on speculation the very essence of which is that it is not service. Brokers themselves have tried to distinguish between the legitimate and the illegitimate in their business, and years ago thought that they had found the distinction in the delivery or the non-delivery of actual securities. The "bucket-shop," *i.e.* the office where stock gambling was reduced to its lowest terms, the customer betting against the keeper of the shop as to fluctuations, was classed by members of the stock exchanges as illegitimate. But their own services, in so far as they serve speculators, may possess only attenuated usefulness. Yet stock exchange members, though much of their business may be notoriously useless and even dangerous, are singularly scrupulous, within the limits of their own game, both to their customers and to each other. They may deceive each other, within the rules. They may pretend that they want to buy when they really want to sell and *vice versa.* They may conceal the size of their orders. Such deception is like that of the tennis player who does not declare to his opponent just where he intends to return the ball. But no stock exchange broker would consciously cheat nor would he fail to live up to his oral contracts, no matter how large may be the sums at stake. He would no more do so than he would cheat at cards or call his opponent's tennis ball "out" when in fact it was "in."

It must, however, be admitted that this scrupulousness, within the rules, results from its being necessary. Other-

wise the stock exchanges could not perform their functions. And the conscientious governors of the exchanges have had great difficulty in precluding "washed sales," "matched orders," and other deceptive tactics. In other words, the rules of the game and the standards prevailing at any particular time are in brokerage more effective deterrents than philosophical analyses as to the inherent nature of transactions.

More impressive than the sportsmanlike business ethics of brokers and persons well known socially is the almost universal determination of small business men to preserve their good names. Even though a thousand John Smiths exist in a community, each indifferent to the others, each will protect his fraction of the name as if it were a priceless treasure. The investor is not alone in trusting. All lenders, all merchants selling on credit, trust. To be trusted and not to repay, to acknowledge bankruptcy, is so abhorrent to business men that some of them to escape this ignominy fall into worse predicaments. Complacent onlookers, who have been spared the searching temptations of impending insolvency, can hardly understand the financial nightmares which have preceded criminal expedients not always recognized as such by those guilty of them. Business crimes may be akin to heroism—unsound, it is true, illogical, and usually disastrous, but at times strangely resembling virtue.

The virtues which are real are those which are treasured in the hearts of men. The abolition or concealment of external evils and more circumspect habits mark only slight progress. All true progress must be internal and is inevitably slow. The ethics of the business world would be far less interesting if they were obvious or were easy to acquire or to change for the better without long and often severe suffering.

To stimulate industry by justice between giving and getting, borrowing and lending, and not to discourage

it, means not only fairness but patient study and rare wisdom. Even harder is it to measure the progress toward good or evil in the whole vast extension of modern industry. The forces of nature are now utilized as never before, the amount of production is unprecedented, millions of people exist where formerly there were thousands. Yet it is not clear that men and women in factories doing forever the same limited, monotonous tasks or the rich people forever separated from them are happier or more advanced in successful civilization than were the simple, self-reliant, and mostly homogeneous Yankee farmers before they were embattled for freedom and fired the shot heard round the world. Other generations have gone astray through worshipping false gods, and it may be that our worship of Mammon has led to size rather than to true progress. In all the two thousand years since the peaceful night

> Wherein the prince of light
> His reign of peace upon the earth began,

there has never before been so much discontent, dissension, and hatred as now. The Commission on Industrial Relations would have us believe that faulty distribution is at the root of our evils. Such a suggestion in truth hardly scratches the surface of our gigantic business problems of today. We can understand and solve the details far better than we can perceive whither the whole mighty army of industrial workers is in its blindness really marching.